

Economics 354
The Economics of Public Regulation
Spring 1999

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Text: Viscusi, W. Kip, John Vernon, and Joseph Harrington. Economics of Regulation and Antitrust. Cambridge, MA: The MIT Press, 1998.

You quickly will realize that even very recently conceived regulatory policies have a short shelf life. Conceptual and procedural innovations occur with regularity. Regulation magazine (call number K18.E6) is an excellent source of current information. The typical article is 6-9 pages in length.

Course Calendar:

Topic Date

I.	Introduction	Jan 19
II.	Normative and Positive Theories of Regulation	Jan 21
III.	Theory of Natural Monopoly	Jan 26-28
IV.	Alternative Forms of Economic Regulation	
	(a) Rate-of-Return (including Peak-Load Pricing)	Feb 2-11
	(b) Price-Cap	Feb 16
V.	Franchise Bidding	
	(a) Theory	Feb 19
	(b) Cable TV	Feb 23
MIDTERM EXAMINATION		Feb 25
VI.	Deregulating Natural Monopoly	
	(a) Theory	Mar 9
	(b) Telecommunications	Mar 11
	(c) Electric Utilities	Mar 16
VII.	Regulation of Potentially Competitive Industries	
	(a) Theory	Mar 18-23
	(b) Surface Transportation	Mar 25
	(c) Airlines	Mar 30
VIII.	Risk Regulation	
	(a) The Environment	Apr 6-13
	(b) Occupational Safety and Health	Apr 15
PAPERS DUE		Apr 15
IX.	Student Papers (5 days)--Applications of Economic Principles in Various Regulatory Settings	Apr 20-May 4

Course Syllabus:

I. INTRODUCTION

Text. Chapters 1 and 2 (through p. 38)

II. NORMATIVE AND POSITIVE THEORIES OF REGULATION

Text. Chapter 10.

III. THEORY OF NATURAL MONOPOLY

Text. Chapter 11 (Jan 26 pp. 351-62; Jan 28 pp. 362-72).

Demsetz, Harold, "Why Regulate Utilities," Journal of Law and Economics, 11 (February 1968), pp. 55-65.

IV. ALTERNATIVE FORMS OF ECONOMIC REGULATION

(a) RATE-OF-RETURN (INCLUDING PEAK-LOAD PRICING)

Text. Chapter 12 (Feb 2, pp. 377-86, 391-96; Feb 4, pp. 386-91; Feb 9-11, pp. 396-407).

Averch, H. and L. Johnson. "Behavior of the Firm Under Regulatory Constraint," American Economic Review (December 1962), pp. 1052-54 (top), 1059-68.

Gollop, Frank and Stephen Karlson, "The Impact of the Fuel Adjustment Mechanism on Economic Efficiency," Review of Economics and Statistics, 60 (November 1978), pp. 574-75, 583-84.

Caves, Douglas and Laurits Christensen, "Time-of-Use Rates for Residential Electric Service: Results from the Wisconsin Experiment," Public Utilities Fortnightly (March 17, 1983), pp. 30-35.

(b) PRICE-CAP

Text. Chapter 12, pp. 386-87.

Stelzer, Irwin M., "Regulating Telecommunications in Britain: A New Alternative to the U.S. Approach," Telematics, III, Number 9 (September 1986), pp. 7-11.

V. FRANCHISE BIDDING

(a) THEORY

Text. Chapter 13 (pp. 413-29)

(b) CABLE TV

Text. Chapter 13 (pp. 429-48)

VI. DEREGULATING NATURAL MONOPOLY

(a) THEORY

Text. Chapter 15. (pp. 475-86)

(b) TELECOMMUNICATIONS

Text. Chapter 15. (pp. 486-514)

Crandall, Robert W., "Relaxing the Regulatory Stanglehold on Communications," Regulation (Summer 1992), pp. 26-35.

(c) ELECTRIC UTILITIES

Ando, Amy and Karen Palmer, "On the Way to Retail Competition," Resources (Summer 1998), pp. 11-14.

VII. REGULATION OF POTENTIALLY COMPETITIVE INDUSTRIES

(a) THEORY

Text. Chapter 16.

(b) SURFACE TRANSPORTATION

Text. Chapter 17 (pp.551-74).

Caves, D.W., L.R. Christensen, and J.A. Swanson, "The High Cost of Regulating U.S. Railroads," Regulation (Jan/Feb 1981), pp. 41-46.

Taylor, John C., "Regulation of Trucking by the States," Regulation, Number 2 (1994), pp. 37-47.

Moore, Thomas Gale, "Unfinished Business in Motor Carrier Deregulation," Regulation (Summer 1991), pp. 49-57.

(c) AIRLINES

Text. Chapter 17 (pp. 574-97).

Kahn, Alfred, "I Would Do It Again," Regulation, No. 2 (1988), pp. 22-28.

Bailey, Elizabeth, "Airline Deregulation," Regulation (Summer 1992), pp. 18-25.

_____ and Dong Liu, "Airline Consolidation and Consumer Welfare," Eastern Economic Journal (Fall 1995), pp.463-76.

McKenzie, Richard B., "Making Sense of the Airline Safety Debate," Regulation (Summer 1991), pp. 76-84.

*Moses, Leon and Ian Savage, "Aviation Deregulation and Safety," Journal of Transport Economics and Policy (May 1990), pp. 171-88.

VIII. RISK REGULATION

(a) THE ENVIRONMENT

Text. Chapter 21.

Kellogg, Michael, "After Environmentalism," Regulation, Number 1 (1994), pp. 25-34.

*Maloney, M.T. and Bruce Yandle, "Cleaner Air at Lower Cost: Bubbles and Efficiency," Regulation (May/June 1980), pp. 49-52.

*Noll, Roger, "Implementing Marketable Emissions Permits," American Economic Review (May 1982), pp. 120-24.

*Gollop, Frank and Mark Roberts, "Cost-Minimizing Regulation of Sulfur Emissions: Regional Gains in Electric Power," Review of Economics and Statistics (February 1985).

(b) OCCUPATIONAL SAFETY AND HEALTH

Text. Chapter 23.

*Miller, James and Thomas Walton, "Protecting Workers Hearing: An Economic Test for OSHA Incentives," Regulation (Sept/Oct 1980), pp. 31-37.

IX. STUDENT PAPERS (5 DAYS) --APPLICATIONS OF ECONOMIC PRINCIPLES IN VARIOUS REGULATORY SETTINGS